

Available online at www.sciencedirect.com**ScienceDirect**

Procedia Economics and Finance 20 (2015) 358 – 364

Procedia
Economics and Finance

www.elsevier.com/locate/procedia

7th International Conference on Globalization and Higher Education in Economics and Business
Administration, GEBA 2013

Considerations regarding the external public audit of reimbursable funds

Emil Lungeanu*

Curtea de Conturi a României, Oficiul Regional de Audit Galati, Zona Faleza Dunarii, 800386, Romania

Abstract

Starting from the fact that a way to obtain, learn and disseminate knowledge is the activity of scientific research, we propose a study and a research of the contextual frame in which the activity of public external audit is achieved, especially the operational audit of foreign non-reimbursable funds.

Similarly we can say that the audit has a social role, the arguments are the following: The objective of an audit of financial statements is to enable the auditor to express an opinion on the financial statements if they have been compiled, in all significant aspects in accordance with the applicable financial reporting framework.

The opinions issued by the auditor helps users understand the significance of the information contained in the financial statements on which they make decisions that alter the economic value of the entities, social groups / individuals.

© 2015 Published by Elsevier B.V. This is an open access article under the CC BY-NC-ND license

(<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of the Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi.

Keywords: operational audit; control; structural funds; audit standards; superior audit institutions;

1. Introduction

We intend to treat the mentioned subject not only from gnoseological point of view, in other words, we won't just broaden the current theories and practices.

In research, beside the theoretical analysis work, we intend to have a critical attitude both regarding previous

* Emil Lungeanu. Tel.: +4-072-408-1068.

E-mail address: emil.lungeanu@yahoo.com

research and defining and spreading innovative ideas relating to the suggested topic, as well.

We may say that studying theorists work who are linked to the field news, in order to formulate the rules of good practice is an epistemological matter.

From the epistemological point of view, in auditing, we operate with valuable judgments, namely evaluations or practical assessments of the phenomenon which our work can influence by adopting an approval or disapproval attitude.

Value judgments are products of the individual mind and in the field we submit to research they represent the auditor's professional judgment in evaluating the conclusions of the audit which form the basis for the audit opinion on the financial statements.

To support the addressed concepts and in order to understand and highlight the reality for drawing reasoned conclusions and solutions, I will mainly appeal to: the study of bibliographic references identified in the professional literature to identify new lines of research, the practical experience I gained in the supreme audit institution (SAI); scientific documentary research on the current state of the organization and functioning of the public audit in Romania and ways to improve it; the documentary research on the types of external audit exercised by the Supreme Audit Institutions from the member states of the European Union, case studies related to the activity of the external audit, case studies about the legality of funds' usability to beneficiaries; a selective scientific research for the professionals and connoisseurs of this domain.

The compliance and alignment to a set of general principles are now the main objectives of regulators and professional bodies in the field, under which each SAI develops their own standards influenced by the cultural context in which they operate, in a time when globalization and its effects make their presence felt internationally and nationally in all areas of society and therefore also in the economic area.

The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) is the international organism of standardization in the auditing field [1].

In our opinion, the theories, the methodologies and the standards issued by the mentioned organism, are still the paradigms with the most significant impact on audit rules and practices.

2. Audit and control - aspects of the financial management system

The approach of the mentioned issues is a natural approach, but a complex one, given the fact that in the professional literature we could not find a complete and rigorous treatment of these issues. Accounting is presented as a scientific discourse of multiple paradigms designed to make explanations on the production and dissemination of information used in decision making in organizations.

As a scientific approach and practice, accounting is influenced by the cultural context in which it operates, the concept of heritage in accounting appears as a sequence of gnoseological value in the history of a social discipline arising from practical needs.

As a scientific discipline accounting has a theoretical basis made up of many theories, because no theory can not answer to all the questions.

As a practical activity accounting is a "normalized" representation of an organization, an intellectual representation built upon conditions more or less regulated, but accounting representation has different objectives, depending on the context in which it operates.

The first conceptual framework was developed in the 1970's 1980's by the American accounting profession. In 1973, there was created an independent body of both the accounting profession and public power - FASB - Financial Accounting Standards Board, with an accounting regulatory role, which has developed a conceptual accounting framework.

Several countries have been inspired by it to develop their own conceptual accounting frameworks (UK, Germany) or to improve their conceptual basis of accounting normalization. The conceptual accounting framework issued by the International Accounting Standards Board (IASB) in 1989 presents an economic approach to accounting information because it specifies that accounting information is produced only if it is useful in decision making.

The financial statements aim at providing information ensuring market efficiency and optimal allocation of economic resources.

Accounting is defined by some theorists as an applied social science and accounting is defined as a "social game" that has rules, actors (players) and stakes. If accounting is regarded as "social game" its participants are:

- Normalized accountants, accounting regulatory bodies, which are designed to produce accounting rules;
- Manufacturers of accounting information, professional accountants operating as employees in different organizations, firms or accounting services on an individual basis;
- Accounting information quality controllers, financial auditors conducting independent external control of the accounting information;
- Users of accounting information within the organization (managers) and external (banks, investors, tax authorities, trade unions).

The participants in this social game can have advantages over the others, so it is preferable that the regulation of accounting firms to be made by independent normalized accounting bodies where all those interested in accounting information should be involved.

Some authors consider that human existence is governed by control, and identify three stages in which we constantly find ourselves: controller, controlled and self-control.

Because of the frequent controversies and confusions that occur between audit and control, we tried to make our contribution by clarifying these two concepts.

Audit and control are two distinct concepts that have many common parts, as well as differences, of which the most obvious consist in the exercise and revaluation of the results of these activities.

So, unlike control, which is research related to financial-accounts irregularities and damages discovered, apply coercive measures, proceed to recover damages and act to putting the situation in order, the audit issues just an opinion, make recommendations to settle the situation.

So, the financial control along with the financial audit are the main elements of supporting the management of an economic entity, through their double role, both to prevent and notify disturbing situations of the system and rectify any infringement from the legal rules governing the activities undertaken within it [3].

The etymology of the word "control" comes from the Latin "contra rolus", which means "checking a duplicate of the original act" [4].

Control, in his semantic meaning is a "permanent or periodic analysis of an activity, of a situation, to follow its progress and take improvement measures."

At the same time, control means a continuous moral and material supervision as well as ruling an activity, or situation [5].

In literature we also have other concepts, such as:

- in the Francophone acceptance, "control is a verification, a careful inspection of the correction of an act [6];
- in the Anglo-Saxon acceptance, "control is one's supervision action, of something, a thorough examination or the power to lead like regulation instrument of a mechanism" [7].

The etymology of the word "audit" comes from the Latin "AUDIRE" and means to listen. The British give the meaning of "verification, audit, balance" [8].

Auditing is spoken about from the times of the ancient Assyrians, Egyptians, also during Charles the Great and Edward the First of England. Audit activities were also done in Romania, but known with other names.

In the Audit Words vocabulary there is the following definition: "Internal audit is within an organization, a function exerted in an independent way and with mandate, of evaluation of the internal control. This specific approach is related to the sound control of risks by those responsible [9].

The use of the „audit" term, as it is understood today, is relatively new and comes from USA 1929 economic crisis, when business organizations hit by the economic recession had to pay large amounts for the consulting services, consisting in certification of the accounts of all the quotable enterprises, made by external auditors. In order to fulfill their tasks, the audit offices had to prepare certain paper works beforehand which increased the costs of the audit services.

Under such circumstances, particularly with the purpose to reduce their expenditure, the enterprises started to organize their own internal audit offices, by taking over the preparatory works from inside the entity while applying to external audit offices for the certification of the activity. These external audit offices were also entitled to supervise the enterprise's activity.

In order to distinguish between the external audit offices and those of the audited organizations, the former were

called external auditors, while the latter were called internal auditors, because they belonged to the enterprise.

3. Audit functions as reflected in specialty papers

Alvin ARENS and James K.LOEBBECKE recognize three essential types of audit: financial audit, compliance audit and operational audit, as it is described in their work „Auditing, an Integrated Approach” [10].

We cannot ignore the fact that certain misunderstandings and confusions are still to be found in the literature regarding this topic and also in the Romanian legislation.

Law No.94/1992 regarding the organization and the Activity of the Court of Auditors is a clear example, as it is stipulated in article.1, part.2 which specifies: „The function of checking performed by the Court of Accounts is accomplished through external public audit procedures, provided in the own auditing standards, in agreement with the generally accepted international audit standards.”

Therefore, not even the law of organization and functioning of the supreme auditing institution, clarified the two analyzed concepts which are defined as follows [11]:

- control - the activity of checking and pursuance of legal compliance as regards the formation, administration and use of public funds.”
- external public audit - the audit activity carried out by the Court of Accounts which mainly includes the financial audit and the performance audit.

By corroborating the Romanian legal provisions in the field of the Structural Funds with the ones of the international auditing standards and the practical aspects resulted from their application we identify several types of public auditing.

The most eloquent criterion taken into consideration in identifying the types of auditing of Community grants regulated, at national level, was the one considering the organization of the activity according to which public auditing can be either inside the entities involved in the management and implementation of the European funds (internal) or exercised from outside of the entities (external).

The non-reimbursable structural funds represent financial instruments through which the European Union acts in order to reduce the economic and social discrepancies between regions aiming to achieve the economic and social cohesion in the European space.

The external audit of the non-reimbursable grant funds is performed by the Audit Authority within the Romanian Court of Auditors. From the operational point of view the Audit Authority is an independent institution from the Romanian Court of Auditors and from all the other authorities responsible with the administration and the implementation of the non-reimbursable grant funds.

Audit policies and rules of the Audit Authority are based on best international practices, represented by audit standards published by the International Organization of Supreme Audit Institutions (INTOSAI) and international auditing standards established by the International Auditing Practices International Federation of Accountants (IFAC). These rules have been adjusted to consider the particular mission and responsibilities of the Audit Authority, as defined within European Regulations. Policies and rules are fully compatible with the other directives of the European Community related to external audit activities.

Being a part of the public external audit, the operational audit consists in obtaining the sufficient and relevant audit evidence based on which the auditors can obtain the reasonable assurance that the statements of expenses regarding the operations financed by non-reimbursable structural funds fairly present, under all material aspects, the incurred expenditures and the transactions which are based on are legal and fair [10].

The research allowed me to notice the fact that besides the organizatory diversity, all Superior Audit Institutions have a common quality, that of being united into international (the International Organization of Superior Audit Institutions – INTOSAI – that includes the superior audit institutions from the eu member states, that issues audit standards, methodologies and ensures the instruction in the auditing field) and regional organization (EUROSAI). Another quality is that of performing the external public audit activity in accordance with unanimously accepted standards, also used by SAI in setting its own standards.

The goal of international and european audit organizations is to promote and develop the best practices regarding the external audit of the public grants of institutions.

Audit standards have been developed to define the principles and the most efficient methods that could be used to

audit the public grants available to organizations. These standards are the result of an agreement on the best practices in the field, namely the Audit Standards INTOSAI and the European Guidelines of applying the INTOSAI standards. Considering these standards and also IFAC standards, Romania's Court of Auditors has elaborated its own standards.

4. Need for reimbursable funds audit

With the development of universal values, of democracy, freedom and state of law, more strongly has emerged the need to establish and strengthen some independent, professional and modern structures, for monitoring the public money, an important factor of the progress and prosperity.

However, more than ever, current global financial and economic crisis requires deep reflection and appropriate behaviours, on all levels, including the absorption and use of community grant funds.

Establishment and effective use of public funds, including grants of EU funds is a prerequisite for the success of the current financial and economic reforms and of a sustainable development of Romania.

Budgetary funds allocated to individuals/ public entities, are not so comfortable as to enable their unrestricted spending.

This should be a call to the need for sustained efforts to find the most appropriate ways to use available resources.

Public audit has a key role in safe guarding financial resources, in promoting responsibility of entities involved in the absorption of EU funds.

External public audit is not seen as a goal in itself but as a tool to optimize the use of funds by helping to identify the significant misstatements and their material correction. The recommendations offered by the audit will help to accelerate access to funds and their objectives fulfilment in terms of anticipation and appropriate risk management and efficient use of funds under the law.

The literature reveals that external public audit is a process of monitoring and verification of public money, and with its help it can optimize the economic and financial activities for the fast and performance development of public entities.

The need for operational external public audit derives from the complexity of programs financed from European funds, from activities and obligations of beneficiaries and institutions involved in programs management and implementation, and also from the requirement to fight against waste in the management of funds, against bureaucracy, prevention of dysfunction that can occur in the work of the actors mentioned above.

The operational audit covers the actions of following the public financial resources which are lost through negligence, irregularities or fraud.

The audit must provide accurate information on the management of public funds, including those from the European Union.

State targets which are wanted to be materialized in a more efficient economy, cannot be achieved without an effective and efficient integrated audit, able to identify deviations from established performances and make recommendations for their adjustment. One issue to be permanently in view of public external audit should cover one of the most serious phenomena Romania is facing in the current phase, the corruption. Corruption embezzles resources of society from their destination, affecting public order and financial discipline ensuring, and also efficiency in the use of public money.

Corruption has adverse consequences for public entities, but also for honest citizens. Identification of specific forms in which corruption occurs, assessment of its size and control of the phenomenon, involves the external public audit which should focus its actions to protect public funds.

Adapting the audit methodologies to the offenders' professionalism degree, expanding cross-border collaboration, alignment of the external audit to international standards and best practices, all of these must become a priority.

5. The current state of knowledge in auditing operations aim to describe at least six elements:

The legal basis for the audit of operations is represented by Council Regulation (EC) no. 1083/2006 laying down general provisions on the European Regional Development Fund, European Social Fund and Cohesion Fund.

The objective and goal of EU funds external auditor established by Commission Regulation (EC) no.

1828/2006 laying down rules for implementing Council Regulation (EC) no. 1083/2006 laying down general provisions of the European Regional Development Fund, European Social Fund and Cohesion Fund and Regulation no. 1080/2006 of the European Parliament and the Council on the European Regional Development Fund.

Thus, the overall objective of the audit of operations is to obtain reasonable assurance that management and control system works and that the statements of expenditure presented to the Commission are correct and that the underlying transactions are legal and regular, and specific objectives are to verify the conditions under Article 16 of Commission Regulation (EC) no. 1828/2006. As for audit scope, it is to obtain sufficient, relevant and reliable audit evidence to support the annual opinion on the operation of the system, by applying audit detailed techniques and background procedures on operations [10].

The audit of transactions involve the following activities

International Auditing Standards established that at the end of each audit the auditor should prepare a written report or opinion, as appropriate, to include the findings in an appropriate form, its content to be easily understood and with no possibility of ambiguity or misunderstanding, including only information supported by relevant and competent audit evidence and to be independent, objective, accurate and constructive.

The audit report is the main means of communication and information of results of auditors work to all interested persons.

Audit opinion is a short, clear and explicit statement about the general conclusions of the audit.

Follow-up (follow the mode of implementation of audit recommendations).

Our approach is aimed at identifying ways and solutions to improve the audit work of the Structural Non-reimbursable Funds.

6. Conclusions

The operations' audit plays an important role in protecting the EU's financial interests and in ensuring effective and legal management of the European taxpayer's money that finances its activities. Effective and legal management is of vital importance for both effectiveness and efficiency of public funds but also to show our citizens the added value of European structure and especially cohesion policy.

The author considers, to identify nonconformities to the requirements of national and community regulations, which could have a significant effect on the statements of expenditure submitted to the EC / audited projects, it is not enough auditors to apply traditional audit procedures (inspection, observation, inquiry, confirmation, recalculation, re-performance, review / verification, and so on). Within the audit of operations, the auditor must critically assess the validity of the public procurement procedures and the contracts for services, supplies and works execution and those who question the reliability of documents or the recipients of grants statements. Operational audit is designed to detect deviations from the legality, regularity and compliance in relation to national and / or European dispositions and to the provisions of contracts or other legal commitments made under these provisions, which prejudiced or can be derogatory to the EU budget / budgets of public international donors and / or related national public funds by an amount unduly paid and on obtaining or using European funds and / or their respective national public funds. Achieving this goal and assumed obligation by the Member State, is crucial for approving payments by the EU and avoid the application of financial corrections on the operational programs.

Audit is primarily seen in terms of its "technical" function, where the predominant features of audit practice were the understanding of adequate audit techniques and a solid appreciation of the relevant framework. However, I think this is only the beginning of what is required for an efficient audit. Computer-assisted audit techniques (CAATs) have a special impact upon planning and conducting audits.

So, from top to bottom, the audit organization should be aware of the great changes that have happened and are still happening in the world of information technology.

Taken together, they provide new tools that facilitate the audit's activity more efficiently and enable much more added value in the role of auditors.

The subject of added value leads us to another issue, namely, to the stakeholders' expectations. Of course, legality is important. It gives stakeholders (EU) confidence that the possible corruption is avoided. However, at a time when EU budgets are under increasing pressure the supreme audit institution must demonstrate orientation judgment on value for money issues. Auditors should ensure that they adopt this change and that they are prepared to face the

great challenge of the XXIst century: how to get more from less, more effective results with fewer financial resources.

References

- [1] 2012, Internațional Accounting Standards Board.
- [2] Ion IONAȘCU, 2003, “*Dinamica doctrinelor contabilității contemporane. Studii privind paradigmele și practicile contabilității*”, Editura Economică, București.
- [3] Petre POPEANGĂ, Gabriel POPEANGĂ, 2004, “*Control financiar și fiscal*”, Editura CECCAR, București.
- [4] Marcel GHIȚĂ, 1995, “*Controlul financiar componentă a mecanismului economiei de piață*”, Editura Universitaria, Craiova.
- [5] Dicționarul explicativ al limbii române, 1975, Editura Academiei, București.
- [6] Le petit Larousse, 1975, “*Dictionnaire encyclopedique*”, Paris, Larousse.
- [7] The New Merriam, Webster Dictionary, Springfield, Massachusetts, Merriam-Webster Inc, Publishers, 1989.
- [8] Ana STOIAN, Eugeniu ȚURLEA, 2001, “*Auditul financiar contabil*”, Editura economic.
- [9] Le mots d’audit, IFACI_IAS, 2000, Editions Liaisons, Paris.
- [10] Alvin ARENS, James K. LOEBBECKE, 2003, “*Audit, o abordare integrată*”, Editura Arc, Chișinău.
- [11] Legea nr.94/1992 privind organizarea și funcționarea Curții de Conturi, republicată, Monitorul Oficial nr. 224/1992.